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TREASURY FOR DO/IDD AND OUSED/IMF  
SECDEF FOR USDP/DSAA  
PASS EXIM FOR CLAIMS -- EDELARIVA  
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SUBJECT: PARIS CLUB - JANUARY 2005 TOUR D'HORIZON

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SUMMARY  
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1. (U) Following are summaries of country discussions during the January 12-13, 2005 Paris Club session. The Paris Club's President, Jean-Pierre Jouyet, chaired the session. Secretary General (SecGen) Emmanuel Moulin represented the Secretariat. Representatives of non-Paris Club members Brazil, Israel and Korea attended discussions on those countries to which they are creditors. The next session of the Paris Club is scheduled for the week of March 7, 2005.

2. (U) NOTE: INDIVIDUAL CREDITOR POSITIONS REPORTED IN THIS MESSAGE SHOULD BE TREATED AS "PARIS CLUB CONFIDENTIAL" AND NOT/NOT DISCUSSED WITH DEBTOR COUNTRY REPRESENTATIVES, NOR WITH NON-PARIS CLUB PARTICIPANTS.

3. (SBU) Discussed in this session:

Algeria -- Implementation of bilateral agreements  
Angola -- IMF Update (Brazil)  
Argentina -- Perspectives for upcoming negotiation (Israel)  
Chad -- IMF update, extension of the current agreement  
Dominican Republic -- IMF Update, comparability of treatment issues, financing assurances  
Haiti -- IMF update  
Honduras -- IMF update  
Iraq -- EDR tables  
Kyrgyz Republic -- IMF update, financing assurances (Turkey)  
Nigeria -- 2005 debt repayment schedule (Brazil)  
Peru -- buyback, Secretariat report (Brazil)  
Poland -- prepayments (Brazil)  
Russia -- buyback proposal  
Rwanda -- IMF update  
Serbia and Montenegro -- IMF update  
Vietnam -- update  
Zambia -- IMF update

4. (U) ACTION/FOLLOW-UP/UPCOMING ITEMS  
Methodology -- Possible publication of rules concerning buybacks and prepayments

March negotiation -- Kyrgyz Republic, pending Russian financing assurances; Peru buyback

April negotiation -- potential Honduras, Zambia and Rwanda HIPC treatments, potential DR debt rescheduling

TBD negotiation -- Russia buyback

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ALGERIA  
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5. (SBU) The IMF rep said the Board was considering that same day the results from the 2004 Article IV consultations. On December 21 staff presented its report, with a debt sustainability analysis in it.

6. (SBU) Russia said its debt is still unsettled after two years of talks. The Algerians do not want to accept the 1995 Agreed Minute nor the terms of Russia's agreement on joining the Paris Club. Russia still hopes to settle the debt pursuant to Paris Club rules, and plans another round of talks in the first quarter of 2005. The Paris Club should not accept any buybacks because Russia has not gotten a single payment from Algeria in seven years, and should remind Algeria to pay up per Paris Club rules. The UK said it has 1.9 million in arrears on short-term debt, Algeria is not responding, and so it would like to be mentioned in any letter

too. Italy said it also has a dispute about old claims, but would prefer to be mentioned separately from the Russians. Spain said it also has arrears, and will confirm later the amount. Responding to an inquiry from the Netherlands, the Secretariat explained that the 1997 Memorandum of

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Understanding admitting Russia to the Paris Club, provided it would grant an upfront discount of 35 percent to its eligible debtors, up to 65 percent for those countries to which Russia was the biggest military supplier. Algeria contends Russia was its biggest military supplier, but never provided any proof. The Secretariat proposed that Algeria send its data to the Secretariat for verification.

17. (SBU) The President noted the consensus to have the Secretariat draft separate letters reminding Algeria to clear

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its arrears and proposing settlement of the Russian claims with verification through the Secretariat.

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ANGOLA  
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18. (SBU) The IMF reported that staff plan to visit on January 19; this trip is pending IMF receipt of GoA financial documents on SONANGOL and details about external debt negotiations with bilateral creditors. Economic performance has improved; on the debt side, Portuguese banks opened a credit line for USD 100 million on November 19, and the GoA is talking to Bulgaria about its USD 68.8 million debt and with Hungary on its USD 5.7 million debt (as of June 2004). The World Bank rep said the Bank hopes to present a strategy on February 17, conditioned on an IMF agreement and conclusion of a Poverty Reduction Strategy Paper (PRSP).

19. (SBU) The Secretariat said it had contacted the GoA Finance Minister late last year, and had said the Secretariat would be available to explain Paris Club rules and expectations. The Finance Minister had welcomed the call, and arranged for a delegation to visit Paris on January 17.

110. (SBU) Spain expressed its thanks for the Secretariat's actions.

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ARGENTINA  
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11. (SBU) The IMF indicated it had seen press reports that the GoA is considering not continuing with an IMF program after its private bond exchange is completed, but has had no official word. The President of the Paris Club proposed delaying action on a letter to the GoA until the close of the GoA's bond exchange.

112. (SBU) Germany said since it had been the one to originally propose sending a letter, it wants to make the point that Argentina has made no payments for three years thus turning it into a de facto deferral. It is necessary to demand payment. It is not very happy to delay a letter for another 6 to 8 weeks. Argentina does not want another IMF program. It wants to pay the remaining balance of its obligations to the Fund and then end its relationship with the IMF. Without a program, the Paris Club does not reschedule debt, and so it would not be possible to invite the GoA for a negotiation.

113. (SBU) Noting the acquiescence among creditors, the President said he would have the Secretariat circulate a draft letter in a few weeks. The IMF added that the Argentine debt offering is expected to close on February 25; absent any official notification to the contrary, the Fund does expect the GoA to request a resumption of IMF support due to the large amount coming due to the IMF in 2005.

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CHAD  
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114. (SBU) The Chair reminded creditors that Chad reached its HIPC decision point in May 2001 but went off track of its PRGF; Cologne terms are possible if it gets back on track. The IMF reported that talks began in August for a PRGF. The GoC has taken a range of measures. In November 2004, agreement was reached for a 3-year program at 45 percent of quota. Executive Board discussion is scheduled February 7. Staff indicated the GoC has completed all prior actions including clearance of arrears on non-rescheduable debt. The GoC also made progress on HIPC triggers, and has said it will do everything possible to get to HIPC completion point in 2005. Its economic performance is much better thanks to high oil income. It will be stabilizing by 2023 at a debt to export ratio around 85 percent. The Secretariat closed the discussion with the observation that good economic performance does not alter HIPC triggers.

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15. (SBU) The IMF reported that late last month, Fund management approved a memorandum of economic policy. The GoDR requested a 28-month Standby Arrangement at 85 percent of quota, canceling the current standby. Assuming the Paris Club agrees to financing assurances, staff will prepare a memo for Board consideration on January 31. The GoDR reports it completed all 16 required prior actions listed in the staff report. A rescheduling is required due to deficits on the fiscal side with debt servicing obligations, not problems with the balance of payments. It needs a USD 800 million package, sourced from bond restructuring, private sector debt restructuring, IDB funds, a concessional deal from Venezuela, banks, and the Paris Club. The GoDR claimed to have made payments to eliminate its stock of arrears. It is implementing its bond restructuring. It did a road show to meet with commercial banks, which reacted amenably. It is preparing a prospectus for bondholders for an exchange offer to be presented over the next few weeks. The World Bank rep stated that the Bank had approved an adjustment loan in 2004, and it is engaged in talks now on a new country assistance strategy that would go to the Board in May or June 2005.

16. (SBU) The Secretariat reviewed the timetable, and urged the Paris Club to avoid last year's scenario, where comparability of treatment (CoT) proved elusive. The Secretariat urged financing assurances be conditioned on CoT,

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and/or it could envision financing assurances granted only for the first year to see what might be the results.

17. (SBU) The USDEL noted that the GoDR still had a very small amount of arrears that had not been cleared; endorsed conditioning financing assurances on CoT and putting them on a one-year leash; and inquired whether the financing gap may be somewhat smaller due to likely additional private financing that the GoDR had secured.

18. (SBU) Spain reported the GoDR had arrears last year of USD 16 million, now the amount is only one million. It is wise to link financing assurances to CoT plus clearance of arrears plus a one-year limit.

19. (SBU) The UK reported all arrears cleared, and all its claims are post-ccod so it would be participating in the upcoming negotiation only as an observer.

20. (SBU) Canada reported USD 200,000 arrears, and agrees with Spain on the proposals regarding financing assurances.

21. (SBU) Norway has a problem with the DR, since it has a loan in technical default for a dam project. Negotiations continue, with hopes for conclusion in February, but if the dispute is not settled Norway will have considerable claims in default: USD 35 million. It agrees with Spain on financing assurances, and does not want to invite the GoDR to negotiations if arrears exist.

22. (SBU) Japan has USD 6 million in arrears; supports the three conditions on financing assurances.

23. (SBU) Italy has 2.3 million arrears about to be paid, [which the GoDR says it will paid shortly]. Its claims are only post-ccod, so it would be participating in the upcoming negotiation only as an observer.

24. (SBU) Sweden has only post-ccod debt, and agrees with Norway. The GOS is also a partner in the dam project with Norway, which has not been settled yet.

25. (SBU) Germany has two small accounts in arrears, and supports the three conditions on financing assurances.

26. (SBU) France agrees to the three conditions, and has 12 million euros in technical arrears.

27. (SBU) Responding to the inquiry about the size of the financing gap, the IMF confirmed that due to better fiscal performance, the gap will be about USD 327 million, since the non-financial sector public balance was 80 million stronger than anticipated. IDB funds are 50 million higher in 2005, somewhat offsetting a 20 million decrease resulting from a shift in benefits to 2006 of certain benefits from the Venezuelan deal. The commercial bank deal has not materialized. The IMF raised practical questions, namely, does the exchange offer need to close for CoT, and given that the IMF does not tolerate arrears to official creditors, if financing assurances are for 2005 only, would the Paris Club have two negotiations?

28. (SBU) The Secretariat aligned itself with the USDEL remarks, saying creditors need a better idea of the 2006 financing gap. A March invitation would be premature; April might be better to give creditors a chance to learn the

evolution of the exchange offer.

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HAITI

129. (SBU) The IMF said an EPCA was prepared on January 10, in part based on Paris Club forbearance. If security permits, a mission will return the week of January 17 to assist with institution building and lay the groundwork for a program.

130. (SBU) In the absence of the World Bank rep, the Secretariat reported for the World Bank that all arrears were

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cleared on January 6, thanks to a Citibank loan. Immediately thereafter the World Bank approved assistance of USD 61 million for reconstruction and USD 12 million for natural resource management, 51 percent in grant form. The Secretariat will await the EPCA. It indicated some creditors (e.g., France) have indicated they will not apply penalties in recognition of the political turmoil.

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HONDURAS

131. (SBU) The IMF reported a mission will visit in late January to discuss a second PRGF review, HIPC triggers, and Article IV consultations. March may be too early for a Paris Club negotiation since the Board is not likely to discuss Honduras until just after the Paris Club session.

132. (SBU) The Secretariat suggested it would try to schedule Honduras for a negotiation in April.

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IRAQ

133. (SBU) The Chair invited creditors to attend the information session scheduled the following day for non-Paris Club creditors.

134. (SBU) The USDEL reported it had signed its bilateral agreement with the IIG, and had cancelled 100 percent of Iraq debt upfront, with no further obligations. On the EDR tables, the USDEL still has concerns about the methodology, and hopes to circulate a paper by the next session.

135. (SBU) The Chair noted the methodology is the same as that used for the HIPC countries, and proposed that the tables be initialed, de-linking them from later methodological discussions. Creditors agreed. In a parting observation, the Chair noted that canceling all debts is on the margin of acceptable Paris Club behavior, since normally conditionality is observed, and creditors wait until other creditors implement their accords.

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KYRGYZ REPUBLIC

136. (SBU) Russia blocked financing assurances for the Kyrgyz's follow-on PRGF and request for an extension Kyrgyz's consolidation period (to correspond with the extension of the current PRGF). Russia would not agree to extend the consolidation period or financing assurances, demanding that Kyrgyz first clear \$220,000 in arrears to Russia. The Secretariat pointed out the inconsistency of Russia's

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position: by agreeing to extend the consolidation period, Russia was effectively folding the arrears into the previous rescheduling. The Russian delegate said he would check with Moscow and get back to the Secretariat to confirm Russia's position. In the meantime, the IMF plans to issue the staff paper for the follow-on PRGF in late January or early February (the paper will indicate that financing assurances are still pending). Assuming financing assurances are in place, Kyrgyz will be invited to the March Paris Club meeting, at which time creditors will negotiate the terms of a stock treatment. Most creditors seemed amenable to a significant concessional stock treatment, but wanted the IMF to provide further analysis on alternative debt reduction scenarios (for example, under London and Toronto terms).

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NIGERIA

137. (SBU) The IMF reported it will hold Article IV consultations on March 4, and will do a new debt sustainability analysis. After the 2005 budget is approved, staff will visit Abuja to help the GoN design a new macroeconomic policy framework.

138. (SBU) The Secretariat reported on its preliminary meeting on allocating 2005 payments, and noting it wished to avoid airing the arguments again, said it would work on a proposal to see how increased payments under the 2004 formula might satisfy all creditors (although the GON has not agreed to increase payments above the \$1B threshold).

139. (SBU) Determined to air its objection, Germany said it is

unwilling to return to the 2004 compromise. It is not at all optimistic that increased payments are likely, given the vague answer from the Nigerian Finance Minister the day before. It can, however, go along with the Secretariat proposal. The Netherlands and Italy took the same position as Germany. Germany added that it would like to hear more at the next session about how Nigeria's NEEDS program would compare to an upper credit tranche Fund programsince conditionality is a big deal for the Paris Club. The IMF rep commented that its rules on enhanced surveillance have been made much more specific since the Finance Minister departed her employment at the WB. Further, the IMF rep stated for the record that the Fund's agreement on enhanced surveillance for Nigeria was not an "endorsement" of the GON's program as equivalent to the usual upper credit tranche program, which is required for a Paris Club treatment.

140. (SBU) The Chair noted the consensus on procedure, and directed the Secretariat to crunch the numbers and have a working paper ready for the next session.

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PERU  
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141. (SBU) The IMF reported a mission would visit in mid February for a second review under the current precautionary standby arrangement. The World Bank reported that the economy is doing well; the main risk is political.

142. (SBU) The Chair reported on the Peruvian request for a buyback. It has offered USD 1.5 billion for previously rescheduled debt, to reduce its debt profile, by the second half of 2005. It proposes a March negotiation. The key is methodology. Peru argues the right price is net present value, but the rate includes three components: political risk, country spread, and a liquidity premium for cash. Peru wants to cap the buyback price at par. For the Paris Club, a liquidity premium is debatable, and not consistent with the appropriate market rate. Essentially, Peru wants a rescheduling of its debt without rescheduling. The Chair circulated a draft reply.

143. (SBU) Spain agreed there is no case for a liquidity premium. It is not sure about a cap at face value, since giving a choice between a buyback and prepayment leads to the same thing as a cap. The Secretariat argued that the problem is that a cap allows Peru to select among creditors. If a cap is put on the price, than those creditors with higher rates are penalized. That is why a market rate is needed, so that the terms are the same for all, with creditors free to accept or refuse.

144. (SBU) The Chair noted the consensus to send the letter to Peru.

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POLAND  
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145. (SBU) The IMF had nothing to add. The Secretariat noted that the Poles made an offer, and that it had communicated to them the methodology agreed upon in the December session. The Poles now need to know who is participating so they can prepare financials. So far, the Secretariat has not told them who is participating per the Belgian request.

146. (SBU) France still has no position about participation. Italy will not participate. Canada has two agencies that will participate, but its Wheat Board will not. Finland will participate. The UK intends to participate but does not yet have authorization; it hopes to get it within a week. Sweden will participate. The USDEL said it might participate. Norway said it still knows nothing, requested a deadline, and asked what to do with debt for ecology swaps. Spain does not know yet. Denmark will have an answer in a week.

147. (SBU) Jouyet set a deadline of January 21 for creditors to advise the Secretariat whether they are in or out of the prepayment arrangement.

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RUSSIA  
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148. (SBU) An anticipated negotiation to effect Russia's proposal to buy back as much as USD 12 billion of debt owed to Paris Club creditor countries did not take place as Russia abruptly called for a postponement. The Russian head of delegation explained that there were still big differences between Russia and its creditors regarding the general parameters for negotiating the buyback operation, but hoped to be able to narrow them over the next several weeks to make a negotiation possible.

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RWANDA  
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149. (SBU) The IMF reported that a mission is working on a

fourth PRGF review (not complete), and got agreement on a medium-term framework. Its program is on track but there are issues about 2005 spending. There is too much non-essential spending, e.g., a hotel project, loans to civil servants, new aircraft purchases. If the fourth review is successfully concluded, staff could bring Rwanda to the Board in late March for a decision on completion point. Much of the technical work on a debt sustainability analysis has already been completed. Preliminary analysis indicates a significant need for topping up.

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SERBIA AND MONTENEGRO  
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150. (SBU) While the IMF has some concerns about the current account deficit and inflation, the GoS&M have adopted a policy package to address the concerns, which has led to substantial fiscal tightening. Presentation of the fifth review and Article IV consultations is scheduled for the Board in April.

151. (SBU) Russia reported Serbia has USD 1.68 million in arrears, and asked if the Secretariat would prepare a letter reminding Serbia to clear arrears.

152. (SBU) The Chair, noting the consensus, directed the Secretariat to prepare a letter.

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VIETNAM  
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153. (SBU) The IMF reported that the 3rd PRGF expired April 2004. No follow-up program was contemplated. The Board discussed Article IV consultations on November 22, 2004. Vietnam is not a HIPC-eligible country so there is no follow-up on the debt side. Its NPV debt to export ratio is 39 percent according to 2003 data.

154. (SBU) Norway reported that on November 2, 2004, it signed a declaration of intent to do a debt for development swap, probably including debt forgiveness. They have invited the International Fund for Agricultural Development to participate. The beneficiary is a decentralized agricultural board. The deal covers all claims, which total USD 5.7 million. All are non-ODA commercial export credits, all development-oriented. All will be forgiven if Vietnam spends all on development. This will be one single transaction to fund two years of the program. Norway hopes to conclude the transaction in February or March.

155. (SBU) Under the existing standard debt swap provision, creditors are limited to the amount of non-concessional debt they can be included in a debt swap operation. The Secretariat noted that Norway had exceeded that threshold,

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however no creditors objected. The Chair thanked Norway for the information.

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ZAMBIA  
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156. (SBU) The IMF reported that there is a fairly high probability of reaching HIPC completion point in March. A mission to conduct the 2nd review under its PRGF is scheduled at the end of January. The program is on track so there should be no hold up at the Board meeting. Nevertheless, there is one complication regarding data. Zambia has a serious debt management problem. During an October conversion of debt management software, large amounts of data were wiped out and totally lost. Reconciliation is ongoing, and the IMF hopes to have an accounting basis upon which to complete its debt sustainability analysis. The IMF hopes the Club can help with the reconciliation process, particularly regarding US PL480 loans and Japan.

157. (SBU) Russia said it has considerable arrears, totaling USD 30.7 million in post-ccod from October 2004 maturities. In June 2004, the Club agreed to extend the 2002 Agreed Minute to June 2005, if all arrears are paid; therefore the debtor should be informed to clear its arrears. It also asked if topping up would be needed; the IMF replied probably not.

158. (U) Baghdad minimize considered.  
LEACH